

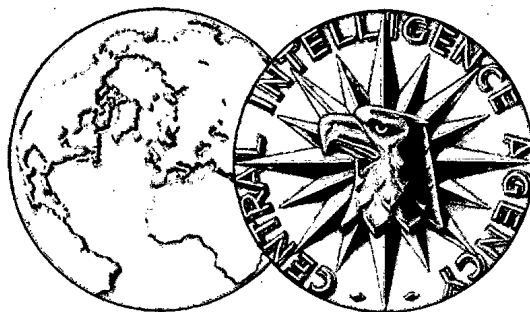
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WEEKLY SUMMARY



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H I G H L I G H T S

The attention of the Kremlin as well as the non-Soviet world continued to be focussed this week on the outcome of the financial crisis in the UK (see page 2). The Kremlin, hoping that the western world's economic difficulties may develop into the long-awaited collapse of capitalism, may delay further aggressive moves. Meanwhile, the nations of Western Europe are hoping that talks between British and US officials will point the way to a solution of their increasingly crucial balance-of-payments and trade expansion problems.

Meanwhile, statements by Marshal Tito, announcing the closing of the Greek-Yugoslav border and implying that the Trieste issue could be settled by direct Yugoslav-Italian agreement, provide further indications that Tito's deteriorating relations with the Kremlin are forcing him to look for western political and economic support (see page 6). Sharp Italian reaction to the virtual incorporation of the Yugoslav zone of Trieste into the Yugoslav economy, however, will make it politically impossible in the immediate future for the Italian Government to accept a compromise division of the Territory of Trieste.

WESTERN EUROPE

Dollar Crisis The growing worldwide dollar shortage, especially critical in the UK and of increasing concern to the countries of Western Europe, continues to be the primary problem facing the non-Soviet world in its efforts to regain economic stability. With prewar production levels largely exceeded, the UK financial crisis has underscored the difficulty of the remaining balance-of-payments and trade expansion problems facing the ECA nations. How the difficulties for other ECA nations will be resolved will depend to a large extent on what measures the UK takes within the next few months to solve the critical British dollar shortage. Pending the outcome of current talks with Commonwealth and US officials, the UK will probably mark time, taking no steps other than the temporary measures advocated by Chancellor Cripps last week. The immediate problems of the UK have been further aggravated by the dock strike, which does not appear appreciably nearer a settlement despite the declaration of a state of emergency and the assumption by the government of special dictatorial powers to deal with the crisis. (Continued refusal by the rank and file of labor to realize the disastrous effects of their attitude will materially reduce the Labor Government's chances of success in the next general elections.) Meanwhile, the relaxation in cold war tension indicates that the Kremlin is also closely watching for the outcome of the present economic dislocations in the western world. Because Marxist dogma flatly guarantees the eventual collapse of the capitalistic world as the competing nations struggle for their economic existence, the Kremlin may delay any further aggressive moves in the East-West conflict in the hope that the present difficulties may develop into the long-awaited collapse of capitalism.

GERMANY

Electoral Maneuvers The major political parties of west Germany, by granting sizeable representation to refugees, will probably increase their party following (see page 13) and block to some extent the development of a large, potentially dangerous social group. The refugees, discontented over delays in the passage of legislation granting them financial relief and the disproportionately high unemployment rate in their ranks, have had no legal outlet because occupation authorities have: (1) refused to license expellee political parties on either Land or zonal levels; and (2) prevented the major parties in Bavaria and Lower Saxony from establishing special refugee electoral districts. The Christian Democrats and Socialists, however, are offering substantial representation to refugee candidates on their party lists in some of the Laender, in an attempt to prevent the eight million expellees from supporting the parties of the extreme right or left.

FRANCE

Communist Strength Communist potential for damaging the French economy has increased materially within recent months as a result of tightened Communist control within the General Confederation of Labor (CGT) and the extension of CGT influence in the field of labor-management consultation. Although popular support for Communism has declined in France and membership in the CGT has fallen from 3 to 2½ million, Communist influence over the CGT has been strengthened by replacement of undependable CGT officers with militant and disciplined Party

FRANCE

members. Moreover, the Communists through the CGT have gained control of 80% of the consultative industrial plant committees required by French law to represent labor and management in major industries. For example, the CGT controls these committees in nine of the ten nationalized aircraft factories and exercises approximately the same proportionate influence in the metallurgical and coal industries. These committees advise management on problems of production, prices, and social welfare, and the CGT has been attempting to extend committee jurisdiction to wages. Thus, by strengthening its control within the CGT and within the industrial committees, the Communists have enhanced their capabilities for industrial espionage, sabotage, and plant seizure as well as for a major strike campaign reportedly decided upon for early fall.

FRENCH NORTH AFRICA

French Strength French military strength in North Africa, particularly Morocco, is now believed adequate for the maintenance of internal security and the suppression of any foreseeable native uprising. French military forces, which had been seriously depleted by June following the transfer of troops to Indochina, have been reinforced by such measures as: (1) the recall of reserves and personnel on leave from Indochina; (2) intensified local recruiting; and (3) an increase in the allotment of conscripts to North Africa.

TRIESTE

Italian Reaction The forcefulness of the Italian Government's response to Tito's recent incorporation of the Yugoslav zone of Trieste into the Yugoslav economy makes an early solution of the Trieste problem extremely unlikely. In reacting to this move by Tito, the Italian Government has strongly reiterated Italian claims to all of the Free Territory of Trieste, has lodged official protests with the US, UK, and France (which in March 1948 jointly proposed the return of the Territory to Italy), and has suspended trade negotiations with Yugoslavia. The vigor of the Italian reaction to the Yugoslav move may in part be an attempt to compensate for the embarrassment Italy is undergoing at this moment on the overall colonial issue. Regardless of this motivating factor, however, it will be politically impossible for the Italian Government to retreat on the Trieste issue in the near future.

E A S T E R N E U R O P E

YUGOSLAVIA

Satellite Trade Despite Yugoslavia's widely publicized economic and political break with Cominform nations, Yugoslavia and Hungary are attempting to maintain indirect trade relations through western intermediaries. A Yugoslav delegation in Vienna is attempting to have deliveries under the "suspended" Hungarian trade agreement resumed. Similar steps embracing Yugoslav trade with Czechoslovakia through Dutch facilities may soon be forthcoming. Meanwhile, limited commercial relations are reported to be continuing between Yugoslavia and Albania. In attempting to maintain trade relations, both Yugoslavia and the Satellites are motivated by economic self-interest and the Kremlin has undoubtedly given its tacit approval to these operations.

GREECE

Yugoslav Relations Tito's 10 July announcement that the Yugoslav-Greek frontier will be closed apparently represents the long-awaited Yugoslav abandonment of the Greek guerrilla cause. Until recently, despite the reorientation of the Greek guerrillas toward an increasingly anti-Tito Cominform, Yugoslavia has continued certain forms of aid to them in the probable hope of retaining some sympathy among the guerrillas and a strong bargaining weapon for use in dealing with the West. The USSR's recent desertion of Tito on the Austrian treaty issue and Yugoslavia's increasing economic isolation from the Satellites, however, have emphasized Tito's need for western support, while the 6 July guerrilla accusation that the Greek Army was using Yugoslav territory provided a suitable pretext for a Yugoslav declaration of neutrality.

GREECE

Even if Tito's statement represents a complete break with the guerrillas, it will probably have little immediate effect on Greece. While cessation of Yugoslav aid may have some psychological repercussions among the guerrillas, their present military capabilities are unlikely to be affected materially. The guerrillas have been receiving almost all their support from Albania and Bulgaria, and the current Greek offensive in the Kaimaktchalan area has already reduced the usefulness of the one remaining guerrilla base dependent on Yugoslav support. Furthermore, the 11,000 Greek children now held in Yugoslavia assure Tito of continued bargaining power vis-a-vis the Greek Government.

FINLAND

Trade Policy The 29 June multilateral trade pacts concluded by Finland with the USSR, Poland, and Czechoslovakia represent an important step toward linking the Finnish economy more closely with those of the USSR and the other Satellites. Furthermore, these pacts may presage further Soviet efforts to multilateralize trade in Eastern Europe. Faced with a deterioration in their competitive position in the world market as a result of inflationary production costs and a decline in world prices for timber products, the Finns have felt it necessary to devalue the finmark as well as to sign these pacts in an attempt to bolster Finland's export trade. Finland will now be able both to settle its trade deficits with Poland and Czechoslovakia and to continue imports of essential coal and steel goods from these countries without resorting to foreign exchange payments. Furthermore, the pacts afford an opportunity for expanding exports to the Soviet Union of goods not marketable elsewhere. These Finnish moves, however, have not removed the threat of inflationary pressure which will have a severe impact upon the country's economy.

N E A R E A S T - A F R I C A

PALESTINE

Peace Deadlock Israeli-Arab efforts to reach a settlement in Palestine appeared no nearer solution this week despite some progress in Israeli-Syrian armistice talks and efforts to resume the Lausanne peace negotiations. The Israeli proposal that Egypt relinquish the Gaza strip, in exchange for Israeli assumption of responsibility for the 230,000 Arab refugees presently crowded in that tract, is unlikely to be put into effect. Egypt is openly hostile to the idea of giving up more territory to Israel, while Israel's enthusiasm for the plan has undoubtedly been dampened by the fact that the US has conditioned its approval of the proposal on Israel's granting territorial compensation to Egypt. Meanwhile, the recently announced Israeli program to reunite broken Arab families does not reflect any real relaxation in Israel's opposition to the return of Arab refugees. The Israeli scheme calls for an elaborate screening system before any Arab refugee can join his relatives in Israel, and it is unlikely that many will be able to surmount the administrative hurdles set up.

INDIA

Kashmir Dispute The Kashmir situation remains virtually unchanged, though still potentially explosive, as the United Nations Commission for India and Pakistan remains undecided regarding the advisability of appealing directly to India and Pakistan for the appointment of a truce arbitrator. As long as the stalemate in negotiations continues, a danger exists that fighting will be resumed in Kashmir with open warfare between India and Pakistan almost certain to follow. Meanwhile, Indian propaganda is emphasizing

INDIA

the possibility of overt hostile action by Pakistan. Apparently unjustified by factual evidence, this new propaganda offensive may indicate that India rather than Pakistan is preparing for aggressive action.

PAKISTAN

Afghanistan Relations Tension between Afghanistan and Pakistan has eased somewhat following Afghanistan's acceptance of the Pakistan proposal for a joint investigation of the recent Mughulgai bombing incident and the beginning of Ramadan (the Mohammedan month of fasting). Nevertheless, Afghanistan's press campaign against Pakistan continues unabated, and the possibility of armed conflict developing from further incidents between the two countries cannot be ruled out.

F A R E A S T

Pacific Union The joint appeal by Chiang Kai-shek and Philippine President Quirino for the formation of a Pacific Union Pact to contain Communism is unlikely to prove effective in the near future. With several Southeast Asian nations engrossed with internal troubles and others apparently not yet prepared to participate actively in such a pact, the proposed union would be off to a slow start. At best, it would probably develop into a pressure group expending its efforts on obtaining US aid, rather than on positive achievements based on the potential strength of the Pacific area itself.

CHINA

Communist Policy With no major changes in the military situation during the past week, the fidelity of the Chinese Communists to the Kremlin was reaffirmed by Communist leader Mao Tse-tung, and Nationalist leaders continued their bickering for control over a steadily disintegrating non-Communist China. In an article apparently addressed to an audience of non-indoctrinated Chinese Communist Party members, as well as the general public, Mao Tse-tung emphasized the firm determination of Chinese Communist leaders to strengthen the state organs of coercion and punishment and to avoid any compromising commitments to western nations. In admitting that 450,000,000 Chinese would be living under a rigid police state, Mao stressed the allegiance of the Chinese Communist Party to the dogmas of Marx, Engels, Lenin, and Stalin. Mao also pointed out that collectivization of the Chinese peasantry would be a painful process but would have to be carried out in order to implement the Chinese Communist program. Although Mao admitted that China depends on foreign countries economically, he denied emphatically that assistance from the US and the UK would be necessary to the Party's success in China.

CHINA

Chiang's Return Chiang Kai-shek's recent conference with Philippine President Quirino regarding a proposed Pacific Union marked a further step toward his resumption of open leadership in Chinese Nationalist affairs. Although Chiang's trip was technically unofficial and without Acting President Li Tsung-jen's permission or advance knowledge, it constituted a new and significant tactic in China's search for further aid. The outcome of Chiang's current negotiations with Li in Canton is still in doubt, but it is almost certain that Li's national influence has virtually terminated. Chiang will probably preside over the initial meetings of the Kuomintang Emergency Policy Committee, and whether or not Li decides to remain as a "figurehead" president will have little effect on the future course of Nationalist resistance efforts. Chiang and his right-wing clique will effectively dictate Nationalist policy, at least in Southeast China and Taiwan.

INDOCHINA

Reaction to Bao Dai The continued failure of Emperor Bao Dai to obtain popular support for his new regime in Indochina augurs ill for French hopes of achieving a satisfactory solution to the Vietnamese problem by means of the March Auriol-Bao Dai agreement. Bao Dai's Cabinet has been received without enthusiasm in South Vietnam and with disappointment in North Vietnam. Despite the fear of some French officials that the Cabinet contains too many anti-French "ultranationalists," most Vietnamese feel that the majority of the newly appointed Cabinet officers do not possess sufficient prestige and ability to attract non-Communist nationalist followers from Ho Chi Minh.

KOREA

Border Clashes A rise in major border incidents in Korea is increasingly likely as a result of the reported movement of North Korean army units into positions closer to the 38th parallel. As a result of these movements, which represent a further consolidation of the army's administrative and tactical control of the border area, army troops will probably soon join border constabulary forces in skirmishes with South Korean troops. It is unlikely, however, that these clashes will develop into full-scale warfare in the near future.

THE WEST GERMAN ELECTIONS

The most probable result of the 14 August elections in the western zones of Germany will be the establishment of a coalition government comprising the Social Democratic Party (SPD), the Christian Democratic Union (CDU),* and very possibly, the Free Democratic Party (FDP). These parties will be favored in the elections by their superior organization and newspaper support, better-known candidates, considerable past experience in governing, and the provisions of the federal electoral law. Consequently the CDU and SPD together are likely to obtain at least 60% of the popular vote; their representation in the Diet will probably be higher, however, since 60% of the Diet seats are allotted to candidates elected in individual constituencies by simple majority vote. In most instances, such candidates will be those of the larger parties.

The rightist and nationalist minority parties, moreover, will be handicapped by the electoral law requiring them to receive 5% of the vote in any Land, or a majority in one constituency, in order to obtain seats in the Diet. The minority parties will, however, profit from the present rightist trend and the considerable antagonism toward the large parties, which are associated with the occupation and postwar difficulties. The Communists are expected to retain approximately their former strength of 5-8% of the votes cast.

The chief obstacles to the formation of a CDU-SPD coalition will be the fundamental differences between the two parties on economic and social programs and the reluctance

* The CDU in Bavaria is called the Christian Social Union (CSU).

of the SPD to assume governmental responsibility without a clear majority in the government. Confronted with the question of entering a coalition, the SPD decision will probably depend on its ability to get sufficient cabinet posts to allow at least partial realization of its program as well as its willingness to subordinate partisan political considerations to the creation of a stable German government. Even greater obstacles would have to be overcome in the formation and operation of a government without SPD participation. The CDU would be forced to obtain the support of the Free Democratic Party, the Center Party, and certain small rightist groups in order to establish a multi-party coalition.

The formation of a two-party CDU-SPD coalition would be more favorable to US interests than a multi-party coalition. The two parties would control a safe majority in the Federal Diet, thus assuring a more effective and stable government. Such a government would also be more progressive and would firmly oppose the Communists. If the SPD should refuse to participate in such a government, the alternative coalition would encounter stronger public and parliamentary opposition and would be more willing to seek Soviet support for maneuvers aimed at establishing a unified Germany.

ITALIAN COLONIES QUESTION

Further postponement of the disposition of Italy's former colony of Libya may well be the only action on this issue which the various nations can agree upon during the September session of the UN General Assembly. The establishment of a united and independent Libya, though probably not in itself disagreeable to the UK, would be strongly opposed by France and probably by pro-Italian members of the UN, and no other compromise seems likely to attract the necessary two-thirds majority support.

Although the Libyan unification movement has temporarily lost momentum, it is unlikely that the local population, encouraged by the recent UK grant of self-rule to Cyrenaica and projected Tripolitanian concessions, would be satisfied with much less than independence. The Italian Government, aware of the obstacles to Italian trusteeship and also of the possibility of an uprising against Italian residents in Tripolitania should Italy be awarded trusteeship, is reportedly seeking a face-saving formula which would allow it to relinquish claim to Tripolitania. The Italians might eventually, though reluctantly, accept independence for a united Libya if provision were made for the protection of Italian interests in the new state.

France, rather than Italy, will probably be the major obstacle to establishing an independent Libya. If Libya, the most politically backward and economically undeveloped area of North Africa, were to achieve independence before the more advanced French territories of adjacent Tunisia and Morocco, the already delicate position of the French in North Africa would be seriously aggravated. Consequently, the French have consistently opposed independence or even limited trusteeship for all or part of

Libya. Moreover, French hopes of eventually annexing the Fezzan would be completely dashed by Libyan independence. Although the British are still reluctant to acquire the economic burden of Tripolitania in addition to that of Cyrenaica, they have probably abandoned hope for General Assembly approval of any proposal except independence. The UK will not encourage independence because of strong French objections, however, and in any case there would be difficulty in procuring the necessary two-thirds support at the next UN session. The British may therefore tacitly support further postponement by taking no action during General Assembly consideration of the Libyan issue this fall, thus hoping to maintain the status quo until independence can be granted without raising complex and partisan opposition

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